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## FINAL REPORT

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# JAPAN'S EMERGING WORLD ROLE

by

**William H. Overholt**

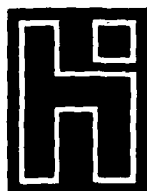
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by

William H. Overholt

HI-1946/3-RR

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## INTRODUCTORY NOTE

This report has deliberately been kept as concise and straight-  
 forward as possible, in order to facilitate its use by busy men. In  
 addition, it places more emphasis on relatively surprising possibilities  
 than is customary in policy documents, because some relatively surpris-  
 ing possibilities are terribly important even if they are not the  
 dominant possibilities, and also because simple extrapolation of what  
 is present and obvious contributes little to the policy debate.

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## JAPAN'S EMERGING WORLD ROLE

Japan could become the pivot of major international relationships in the 1975-1985 period. Because her power and economic expansion are uncommitted, Japan will be increasingly capable of altering its political stance, defense expenditures, and influence to an extent not possible for the other big powers.

The Centrality of U.S.-Japanese Ties

The key to Japan's international choices very probably lies in its future relationship with the United States. This relationship is equally central to America's role in the Pacific. The two countries share powerful interests in democracy, freedom of the seas, relatively free trade, maintenance of a stable monetary system, and mutual defense. These common interests are much greater than their economic competition for trade and raw materials. Nevertheless, short-run divergences have been allowed to interfere with common interests too often in recent years,\* and such conflicts can easily escalate.

Whether short-run economic conflicts or long-term common interests will dominate is the great question for the future of the Japanese-American relationship. The bright long-range economic prospects of the Pacific Basin over the next generation or so\*\* depend upon Japan and America having some shared conception of economic rules of the game in the Pacific. Avoidance of worldwide depression in the short run requires

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\*Cf. William H. Overholt, "President Nixon's Trip to China and Its Consequences," Asian Survey, July 1973.

\*\*William H. Overholt, "The Rise of the Pacific Basin," Pacific Community, July 1974.

Japanese-American cooperation. The direction of Japanese-American ties will affect potential Japanese rearmament and with it the future of the Pacific military balance. Sino-Soviet relations will also be heavily influenced: a dramatically rearmed Japan could frighten the Communist powers into greater cooperation, and Japanese economic decisions could influence both Chinese and Russian strategic capabilities in the region.

It is often said that Japan is tied economically to America and therefore has no options in its relations with the United States. But the connection between economic and political relationships is not so tight. A major transformation of U.S.-Japanese political relations could occur without necessarily affecting a large proportion of Japanese-American trade. After all, the United States gains great advantages from this trade, although the U.S. is far less dependent on it than are the Japanese. Moreover, American trade with Japan is more strongly influenced by domestic political and economic considerations than by foreign policy as such.

#### Are Ties to the Soviet Union or China Attractive?

Shortages of labor and raw materials are now leading Japan to seek access to the extraordinarily large, cheap and capable work force of Communist China and some of its plentiful resources--e.g., coal. But as yet the Chinese have offered only limited cooperation. Japan is almost equally attracted to the immense resources of Soviet Siberia. Again, only limited agreements have emerged so far. These economic magnets could have diplomatic consequences, especially if the Japanese-American relationship sours drastically. However, we must again stress that strong economic ties do not automatically imply political kinship.

The consequences of large-scale Japanese investment in Siberia might, for example, be mitigated by American participation, by assuring Japan as many alternative suppliers of oil as possible, and by Japanese and American stockpiling adequate to hedge against cutoffs.

In one scenario, the Soviet Union might trade its acceptance of Japanese claims to the Kuriles and Sakhalin in return for massive Japanese investments in Siberia and severance of the Japanese-American alliance. This scenario might be more credible if a Socialist coalition came to power in Japan and accelerated a downward trend in Japanese-American relations. But this scenario is unlikely, because of Japanese memories of conflict with the Soviet Union and because of Soviet reluctance to return the Kuriles and southern Sakhalin to Japan.

Japanese relations with China will be strongly affected by contradictory pressures. On the one hand, historic and cultural ties to China, and the desirability of access to Chinese labor, push Japan towards closer relations. On the other hand, the two powers seem likely to engage in a competition for political influence in Korea, Taiwan and Southeast Asia. For the near future, at least, Japan will retain economic hegemony in these areas--where traditionally the Chinese have attempted to maintain a loose form of suzerainty. Mutual resentment and distrust seem unavoidable under these circumstances.

Moreover, Chinese-Japanese relations could become very hostile indeed if a number of scenarios occurred: (1) if Communist insurgencies in Southeast Asia threatened important Japanese interests; (2) if conflict over access to offshore oil resources became intense; (3) if China undertook military action against Taiwan; or (4) if Japan undertook a

broad rearmament program, especially one including the development of nuclear weapons.

Current Japanese economic relations with the PRC and USSR are constrained by mutual fears, by the PRC policy of self-reliance, and by Japanese desire to maintain rough balance in economic relations with the two major communist powers. However, Japanese investment in Siberia, which currently consists of a one-billion-dollar commitment, could expand dramatically and could greatly augment Soviet oil supplies and transportation facilities in the area, thus expanding Soviet military capabilities on the Chinese border. In response, China might feel it necessary to augment its Manchurian military capabilities, and could turn to Japan for assistance in Manchurian development. Alternatively, China might turn to the United States for assistance in rapid development of Manchuria, thereby creating a situation in which a China hostile to Japan moved closer and closer to the United States and thereby forced Japan still closer to the Soviet Union. Such a situation would be extremely inimical to U.S. interests. On the other hand, if the formidable political and climatic obstacles to success of the Siberian project prove decisive, then the project could precipitate fundamental deterioration of Japanese-Soviet relations.

Current Japanese policy toward potential adversaries has been based on a Japanese feeling of weakness. Declining regional tensions have not compensated for Japanese fears of desertion by the United States and of being cut off from vital raw materials. The Japanese have therefore repeatedly made agreements in which their losses may easily prove greater than their gains. Japan committed itself to a billion-dollar investment

in Siberian development at an interest rate of 6.375 percent, whereas U.S. estimates were that the commercial rate would have been about 7 percent. The Japan-PRC air agreement signed 20 April 1974 gained for Japan an air route of trivial economic benefits and minor political benefits at the cost of sacrificing access to Taiwanese air space and a JAL link to Taipei which carried 440,000 Japanese visitors to Taiwan in 1973 and was expected to carry 800,000 in 1974.\* In the oil crisis Japan adopted a completely pro-Arab position and committed herself to long-range development projects in the Middle East to an extent that may not have been completely necessary. In the future there may be a strong reaction against the image of Japan as weak and helpless and in consequence a reaction against such weak diplomatic agreements.

#### Japan and Sino-Soviet Competition

Under certain circumstances Japanese political, economic, and military policies can exercise a non-trivial influence over the future of Sino-Soviet competition. Many of the circumstances under which Japan would obtain such influence are not ones which any "surprise-free" projection would bring to light, but they are nonetheless so important that they are worth keeping in mind.

First, Japan's economic and political policies can greatly influence the balance of power on the Sino-Soviet border. Currently, Japan is attempting to maintain a policy of political "equidistance" in its relations with the PRC and USSR, and to date this policy has enjoyed some success, but the balance may prove difficult to maintain over the long

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\*William Glenn, "Chiang Was Not Bluffing," Far Eastern Economic Review, 13 May 1974.

run. Japan is hungry for economic opportunities and diplomatic successes in both areas, and the PRC policy of Self-Reliance creates far greater obstacles to such successes than does current USSR policy. Thus, even if Japan pushes equally hard on both doors, one door is likely to offer less resistance than the other, and Japan will have to consciously reduce the pressure on the Soviet door, despite intense desire to open it, if the policy of equidistance is to be maintained. If the Soviet door does open more rapidly, the outcome will be somewhat ironic, because the Japanese are clearly more sympathetic to the Chinese than to the Russians. (Cf. the familiar opinion poll data.) But this is what seems already to be happening, as can be seen by comparing Japanese commitments to Siberian development with the far smaller and more hidden economic arrangements with China. If the Soviet door opens faster, then the USSR obtains crucial advantages in terms of ability to maintain and supply forces on the Siberian border with Manchuria.

Conversely, special Japanese efforts to provide balancing advantages to the Chinese, particularly in the event of a possible period of extreme Chinese weakness, could prove decisive in maintaining Chinese autonomy from the USSR. A China preoccupied by food crisis, succession crisis, or other forms of severe difficulty, could become tempted to accept key Soviet demands in return for economic assistance or reduction of military pressure; a China made less vulnerable by a sympathetic Japan could demonstrate more backbone. These considerations may seem to possess little practical importance in a period when the Sino-Soviet split is taken for granted, but one must remember that the Chinese Communist Party has always included a powerful faction which reproached Mao for his hostility toward the USSR

and which could one day gain greater influence. From Kao Kang and Jao Shu-shih in the 1950s to Liu Shao-chi and Lin Piao in more recent years, this faction has possessed the power to stimulate major internal upheavals in China.

Japanese policies can also influence the character and intensity of the Sino-Soviet split. Japanese investments may yet stimulate intensely competitive development of Siberia and Manchuria, and the intensity of that competition may gravely undermine key aspects of the Chinese policy of Self-Reliance. For instance, if China found itself falling far behind, one can imagine some great economic opening to Japanese, American, or EEC economic interests. Such an opening would constitute an even more dramatic reversal of Chinese policy than the invitation to President Nixon. In fact, the reversal might prove sufficiently dramatic to tear the CCP leadership into openly fighting factions. More auspiciously for American interests, competitive development of Siberia and Manchuria could maintain Sino-Soviet competition while focusing that competition somewhat more on economics and somewhat less on military posture.

Japan's relationship with the U.S. can also influence Sino-Soviet competition. Given a strong Japanese-American political relationship and a strong American military presence in Japan and Korea, the USSR and PRC will have to ponder the American response to possible Sino-Soviet warfare, and uncertainty regarding the American response therefore may have some value in deterring Sino-Soviet war.\*

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\* Here it may be useful to make explicit a judgment that Sino-Soviet competition serves American interests, but that large-scale Sino-Soviet warfare would seriously endanger U.S. security and U.S. interests, not only in Asia but also in Europe. The U.S. could become embroiled in such a war, directly or through the Security Treaty with Japan. Also, certain Eastern European states might choose a period of Soviet preoccupation with

As noted above, there are factions in China which support improvement of relations with the USSR. If leadership struggles or Chinese weakness or both should at some point combine with complementary trends in the Soviet Union to facilitate a potential Sino-Soviet rapprochement, then certain extreme Japanese policies could influence the probability and degree of the rapprochement or re-alliance. Suppose that, for some reason, the Japanese-American Security Treaty became abandoned five years hence, and American bases disappeared from Japan. Suppose further that five years further into the future considerable Sino-Soviet rapprochement occurs and that both the PRC and USSR found themselves increasingly in conflict with Japan--for instance, over the Northern Islands and over offshore petroleum drilling. If the Japanese suffered a severe shock and responded with a massive rearmament--e.g., rising to twelve percent of a trillion dollar GNP sometime between 1985 and 1990, then the effect of that rearmament would quite possibly be so dramatic as to frighten the PRC and USSR into firm re-alliance.

Dramatic Japanese rearmament could also have a quite different influence over the Sino-Soviet split if it occurred under circumstances of relatively intense Sino-Soviet competition. A Japanese rearmament focused on novel technology (e.g., satellite-mounted lasers) could provoke an arms race in which China would simply be driven out of the competition; put another way, a sufficiently intense arms race could give China a choice among (1) grave military weakness, (2) collapse of economic development plans caused by high military expenditures, (3) acceptance of a great deal of foreign aid, or (4) capitulation to many Soviet demands--unless of course the Japanese rearmament supported China.

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Asia to revolt. Such revolts might per se enhance U.S. interests, but Soviet responses could endanger Western Europe and embroil NATO.

Finally, of course, Japanese relations with Korea are a prime determinant of the extent to which Korea can become a football in the Sino-Soviet dispute.

#### Japan, Korea, and Taiwan

Japan has already become a principal influence over the futures of Taiwan and Korea, and this influence will rise in the future. First, these countries have become so dependent upon massive Japanese investment and trade that Japan has acquired great leverage. Second, defense of Korea and (to a lesser extent) Taiwan depends in part upon American forces in the region, and the U.S. depends heavily on Japan for bases. Thus, if Japanese-American relations soured to the extent that U.S. bases had to be removed from Japan, or if Japan's relations with Korea or Taiwan led to Japanese insistence that the U.S. not use its bases for defense of either or both of these small countries, then the military positions of Korea and Taiwan would be undermined. Because of the greater geographic vulnerability and political instability of Korea, Japan's economic and political/military leverage over Korea is far greater than over Taiwan. To state the matter in its bluntest terms, Japanese economic policies could conceivably topple the South Korean government whereas the same policies might increase cohesion on Taiwan. Of course, these relative vulnerabilities can change over time, but they are rooted in socio-political differences sufficiently deep that rapid change is unlikely.

Both the Taiwanese and South Korean governments fear and resent Japan's political and economic leverage (while welcoming Japanese capital and trade), but for a variety of reasons Korean resentments are much

stronger.\* Japanese colonialism was harsher in Korea. Japanese have a low opinion of Korean culture. The major association of Koreans in Japan leans toward Pyongyang. And the South Korean government is simply more vulnerable. Privately many South Korean officials express more immediate fear of Japanese influence than of the North Koreans. Specific incidents have greatly exacerbated differences between Japan and South Korea. South Korean intelligence operatives kidnapped opposition leader Kim Dae Jung from Tokyo, to the great consternation of Japanese government and public opinion; diplomatic deterioration and suspension of some economic aid resulted. More recently a Korean resident of Japan used a Japanese passport to enter South Korea and attempt to assassinate President Park Chung Hee, killing Mrs. Park in the process. The intensity of the resulting anti-Japanese feeling can be gauged by the willingness of some Koreans to chop off their little fingers publicly as a form of protest. Given this degree of alienation between the two countries, it is possible--although certainly not the dominant probability--that future tensions and incidents could lead to a dramatic break between South Korea and Japan. One can imagine circumstances in which one or the other would break diplomatic relations, and one can easily imagine situations in which Japan would severely curtail aid, investment, or trade with South Korea--with much greater effect than such curtailment usually brings elsewhere.

Possible policies such as the above would greatly weaken South Korea relative to North Korea, but would not necessarily include any active Japanese effort to tip the balance between North and South. In extreme

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\*For an extended discussion of the reasons, cf. Chapter 11 of John K. Emmerson, Arms, Yen and Power (Tokyo: Tuttle, 1971).

situations, though, one can imagine heavy shifts of trade and aid which would not only damage the South but actively support the North. Such policies are far less likely, but by no means impossible, particularly if the composition of the Japanese government should shift in the future to include Socialist Party or Komeito Party factions.<sup>\*</sup> Here, as in many cases above, I do not intend to predict that such policies are likely or that the Japanese will threaten to use them, but it is important to point out the leverage at Japan's disposal. Another equal but opposite possibility is also worth noting. Korean fears of Japan are spread roughly equally throughout the peninsula and thus constitute one of the few major areas of agreement between North and South. If at some future date North and South Korea renew negotiations on reunification, it would ironically be much easier for them to reach agreement on key foreign policies than on domestic integration, and mutual antagonism toward Japan could be the building block around which some joint policies could be constructed.

Japan is likely to maintain a workable economic relationship with Taiwan, particularly if Taiwan's trade remains at a level comparable to the volume of PRC-Japanese trade.<sup>\*\*</sup> Diplomatically, Japan interpreted President Nixon's trip to China as indicating American willingness to force Taiwan to accept Chinese hegemony. Japan seems willing to accept a formula in which Taiwan would fall under nominal Communist Chinese control but would at least retain economic ties with Japan. However, economic interests and political sympathies mean that Japan will probably not force

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<sup>\*</sup>The major Japanese non-ruling parties are the Socialist, Komeito, and Communist Parties, with the Komeito perhaps most likely to gain a share of power if the ruling Liberal Democratic Party loses the ability to rule alone.

<sup>\*\*</sup>1973 figures: Japan-PRC trade: U.S. \$2.015 billion; Japan-Taiwan trade: U.S. \$2,261 billion.

an otherwise viable Taiwan into such a position. And barring global collapse of foreign trade, Taiwan seems likely to remain viable.\*

In addition to the relatively direct and active leverage which Japan possesses over Korea and Taiwan, Japan possesses a latent grip on those countries' economies which becomes overwhelmingly important in times of energy shortage. Both Taiwan and Korea have plunged heavily into petrochemicals, shipbuilding, and other industries which are terribly dependent upon partially processed raw materials from Japan. When an energy crisis strikes the region, Japan naturally gives first priority to domestic needs and the flow of vital materials to Taiwan and Korea can nearly cease. When added to the other economic consequences of worldwide energy shortages (loss of foreign markets, inflation,...), loss of access to such materials for prolonged periods of time can prove utterly disastrous. Since the 1974 oil shortage, Taiwan and Korea have undertaken to maintain good relationships with OPEC countries, and have sought some diversification of sources of supply of key materials. They also have enormous stocks of some materials. But the basic problems persist.

#### Japan and Sino-American Rapprochement

The great deterioration in Japanese-American relations dates back primarily to the initiation of the American rapprochement with the People's Republic of China, although monetary and energy crises among others have exacerbated the deterioration. But the deterioration did not result from any major divergence of interests. In fact, the Japanese

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\* For one discussion of Taiwan's situation, cf. William H. Overholt, "Would Chiang Find Mao an Unacceptably Strange Bedfellow?" Asian Survey, July 1974.

had for some time felt that the time had come for improved relations with the PRC and that only the sensibilities of the United States were preventing some Japanese rapprochement with China. The chief concerns of the Japanese were prior notification and consultation, not the substance of policy.\* Subsequent misunderstandings have occurred over the rate at which the Japanese abandoned Taiwan diplomatically and recognized the PRC, but the Japanese believed they were following the U.S. lead and viewed their initiatives as "normalization," not as banns announcing a future marriage to the PRC. In the future as in the past, there will be ample room for misunderstandings, mistakes, lack of notification, inadequate consultation, and personal frictions, but the China-related issues of the immediate future are far less volatile than those of the immediate past, and both Japanese and Americans have become accustomed to being a little out of phase in China policy, so future issues do not appear explosive. Basic interests in China continue to be compatible. Thus, while Japanese-American relations will remain super-sensitive for an indefinite period, China policy is not likely to be a major negative determinant of the relationship.

This is fortunate, since the principal objections to the rapprochement concerned its effects on Japanese-American relations. As this is written in 1974, the momentum and perhaps even the direction of Sino-American relations seem to be somewhat in question. The rapprochement has gained broad approval in America, but apparently a debate is raging in Peking regarding the status and future of the rapprochement. Even if--

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\* These issues are discussed in considerable detail in my "President Nixon's Trip to China," op. cit.

as seems to be true--the rapprochement is not a central issue in Peking's new cultural revolution, nonetheless the positions of key advocates of rapprochement may be in jeopardy, and allegedly there is widespread Chinese disillusionment with the concrete gains expected from rapprochement. Regrettably, the disillusionment seems to focus on Peking's inability to obtain more concessions regarding Taiwan; American principles and public opinion will probably permit some further concessions regarding Taiwan's formal diplomatic status, and they will certainly permit complete withdrawal of American military personnel from Taiwan, but they are not likely to tolerate use of economic leverage or military abandonment to alter Taiwan's de facto independence and prosperity. The U.S. can, however, attempt to consolidate the rapprochement, and to maintain Peking's positive assessment of the rapprochement, without any real sacrifice of American interests, by moving rapidly on trade liberalization, by continuing the gradual decline of bases in Taiwan and Thailand, by expressing interest in continued rapprochement, and by institutionalizing the dialogue with Peking in such a way that rapprochement is not neglected when crises elsewhere capture primary U.S. attention. Simultaneously, China is likely to receive parallel benefits from the rapprochement with Japan; that the benefits are parallel, but not jointly worked out between the U.S. and Japan, is all to the good, because joint Japanese-American policies would strike the Chinese as threatening.

On the other hand, there are circumstances under which detailed awareness of one another's views, close consultation, and hopefully some coordination of policy could prove vital--namely, any circumstances under which China and the Soviet Union came to the verge of realignment or

re-alliance. This could occur because of leadership changes over which foreign powers would have no influence. But fairly objective views of the relative costs and benefits of rapprochement with Japan and the U.S., as opposed to reconciliation with the USSR, probably influence Chinese policy decisions and may even influence possible leadership changes to some unknowable extent. The chief arguments of the relatively pro-Moscow factions in Peking have been based on (1) ideological purity, about which the U.S. and Japan can do little, and (2) the costs and benefits of Soviet cooperation in key situations, such as the potential logistics crisis that would have resulted from heavier Chinese involvement in Vietnam. The most likely situation of the latter kind would be a prolonged and severe Chinese economic crisis in which the Soviet Union offered economic assistance and military relaxation in return for foreign policy concessions. Alternatively, but again with economics as the probable root cause, China might at some time find the military balance turning against her so decisively that a turn toward the Soviet Union seemed the only logical choice; such a turn could be accomplished with ideological justification and possibly without any major sacrifice of Chinese autonomy. In such an event, the principal interest of both the United States and Japan would be in preventing the re-formation of a hostile Sino-Soviet alliance, and the principal tools available for attainment of those interests would be economic and technological: investment, terms of trade, removal of restrictions on technology transfer, and the like. In addition, U.S. military presence in the region, stated U.S. military policy, and apparent U.S. ability to employ its forces appropriately, might have considerable deterrent value. It would be well for at least the economic aspects of this analysis to

be thoroughly discussed with the Japanese and for maximum attainable agreement on the confluence of interest to be reached.

In sum, American interest in maintaining some balance of power on the Asian mainland can best be promoted by continuing PRC-U.S. rapprochement and by enhancing China's ability to retain autonomy vis-a-vis the USSR if such ability ever is cast into doubt. Tacit Japanese cooperation in such policies would be a great asset.

#### Japan in Southeast Asia

Japan is heading toward economic dominance in Southeast Asia. Its investments there are gaining on America's. Japanese investments, communications and management will probably spur the entire Southeast Asian region to a period of higher economic growth. A number of associated problems of Japanese investment and trade, however, will have to be adequately handled.

Southeast Asians fear that Japanese economic success might lead the Japanese to press once again for political and military predominance. This fear could be muted if--as seems likely--the United States continues to play an active role in Southeast Asia, and Japanese political goals within the region remain limited. The Japanese are well aware of the contrast between the failure of a predominantly military policy in the 1940s and the subsequent success of a predominantly economic policy. Only in the event of some dramatic provocation, such as the closing of the vital Malacca Straits, would the Japanese be likely to become involved militarily in Southeast Asia during the late 1970s or early 1980s.

Japanese leaders have become aware of the inevitable pitfalls of dealing with Southeast Asia, and have begun to try to mitigate friction.

For example, the Japanese Government is attempting to promulgate a code of ethics to provide standards of behavior for Japanese companies abroad. In addition, the presence of American bases in Southeast Asia not only tends to stabilize the region's relations with China and the Soviet Union, but also assures Southeast Asians of greater independence in their relations with Japan.

#### Japan in Latin America

Japan will increasingly influence the diplomatic context within which Latin American countries operate. Japanese investments are likely to surpass American investments in Brazil sometime in the 1980s. At that point, the era of unchallenged American economic and diplomatic dominance in Latin America will be over. Japanese involvement should accelerate Latin American economic growth rates, and Japanese U.S. competition in the area ought to increase Latin America's sense of independence. Economic growth spurred by Japanese investments will increase the military power of key Latin American countries, particularly Brazil. Key technologies, possibly including nuclear technologies, will flow from Japan to Brazil and other Latin American nations. This economic realignment will reduce U.S. leverage over key countries like Brazil, but may also contribute to a gradual smoothing of U.S.-Latin American relationships. Since the Japanese are mainly interested in access to resources rather than ownership of them, their investments in Latin America may be accompanied by a minimum of political friction. Rising Japanese equity interests could produce trouble, but to date Japanese companies have strongly de-emphasized direct ownership of Latin American industries and have

thereby sidestepped many of the dangers of expropriation or local political resentment. They may well set an example for American companies.

#### A Gradual Increase in Japanese Armament?

Japan may also emerge as a determining factor for the quality and pace of international military arms competition in the 1975-1985 period. Japan's military expenditures could grow rapidly, perhaps as a constant proportion of a rapidly increasing GNP. (Even 2 percent of a 1985 or 1990 trillion-dollar economy would be U.S.\$20 billion.) Moreover, if Japan's military alliance to the United States should weaken, or if Japan should incur serious security shocks, the proportion of Japanese GNP devoted to military expenditures might increase dramatically. Japan's current military spending is such a small proportion of the national budget that it can be quickly expanded. Another factor in this equation might be the rise to power of a more nationalistic and less pacifistic generation. Whatever the political conditions, a large expansion in Japanese military spending could stimulate countervailing military expenditures in China and the Soviet Union and thus put pressure on the U.S. defense budget. Novel and important Japanese technology, such as laser missile defenses mounted in satellites, could force a worldwide arms race. A Japanese decision to go nuclear could provide the rationale for other states to follow.

Japanese rearmament could come as a response to the pressures of domestic nationalism, as a consequence of bureaucratic empire building, as a relatively blind response to external shocks like the Arab oil crisis, or as some combination of these. To the extent that these factors were responsible, rational strategic calculations would have little

influence over the character and pace of Japanese rearmament. But to the extent that Japanese rearmament is based on rational strategic calculation, Japanese anti-militarism may be heavily augmented by a view that most kinds of military forces, and particularly nuclear forces, are essentially irrelevant to Japan's greatest vulnerabilities. Japan needs Middle East oil, export markets, raw material sources, and U.S. food, and in each case--possibly excepting oil--even a fairly massive military program might provide Japan with little additional leverage. The Middle East is so far away and so close to a vortex of (possibly fragile) Soviet power for Japan that vast expenditures would be necessary to acquire military leverage. Access to U.S. food will depend upon political and climatic considerations that have little to do with military force. The economic costs of any attempt to secure raw materials (other than oil) or export markets by force would far outweigh any economic benefits.

Nuclear weapons might add little to Japan's prestige among developing nations. (Since no one doubts Japan's ability to build nuclear weapons, Japan would not gain as much prestige as a seemingly more dubious nuclear power like India. Moreover, India's achievement depreciates the currency of nuclear prestige.) Such weapons would aggravate fears of Japanese military hegemony in Southeast Asia to an extent that might prove economically counterproductive. The existence of a Japanese nuclear force would probably make Japan for the first time a major target of nuclear weapons, a target suffering major strategic disadvantages: whereas the United States, Soviet Union, and the PRC have vast, thinly populated territories, Japan's population and industry are highly concentrated and therefore highly vulnerable to small numbers of nuclear weapons. Thus there are

strong, but not necessarily overwhelming, reasons for Japan to forego some of the principal types of rearmament which that word calls to mind.

Japan's dependence on trade, her defensive intentions, insular geographic position, and economic structure all tend to focus Japanese rearmament on air and naval capabilities rather than on the creation of a large ground army. A large army would be useless against most of the foreseeable threats to Japanese security and would greatly exacerbate the labor shortage which plagues Japan and which will persist for the foreseeable future. Japan's potential military security problems are primarily air and naval problems. Japan has therefore focused on air and particularly naval forces, and has created forces and a mobilization base which are far more potent than a glance at raw numbers would suggest. Japan presently can manufacture domestically most of the military technology which she needs. She is the world's largest shipbuilder and will soon have substantial capability for producing nuclear ships. The Japanese Navy is highly trained and, with a one-to-four ratio between officers and enlisted men, is capable of very rapid expansion. Her ships are exceedingly modern and heavily focused on the crucial role of protecting Japan's shipping against submarines. The Self Defense Forces are backed up by reserves and by paramilitary police, and the defense budget is, in effect, supplemented by a wide variety of civilian technological programs. Thus while it is important to remember the small size of Japan's Self Defense Forces, it is important also not to underestimate them, particularly as a mobilization base.

One of the more esoteric possibilities for Japan's military future is a future development of missile defenses. For instance, Japanese emphasis on defensive weapons, together with her rapidly developing laser

technology, could make feasible Japanese deployment of laser satellites for defense against missiles. The decision to undertake construction of laser missile defenses could be quite consistent with Japanese defensive ideals but might nevertheless trigger substantial reactions by the major powers. Given the compact geography of the Japanese archipelago, even more conventional kinds of missile defense could conceivably prove rather effective against limited nuclear threats, particularly if Japan made use of her already vast underground facilities in a major civil defense program. Japanese deployment of missile defenses would effectively end the era of the mutual assured destruction philosophy and might well terminate any strategic arms limitation agreements that were based on that philosophy. Thus by a great irony Japanese deployment of defensive weapons might stimulate a major arms race.

One must not overstress these possibilities. The most likely future is a gradual increase in Japanese armament--which would be non-nuclear and moderate enough so as not to destabilize the world military balance or provoke a larger arms competition. The above paragraphs merely hedge the projection of moderation in important ways. We cannot ignore Japan's desire for a larger political role in Asia, Japanese reaction to the economic setback of the 1973-1974 energy shortage, or the possible rise to power of a new coalition or Socialist government which might become embroiled in a hostile relationship with the United States. Many events might trigger rearmament. Following security shocks from China or the Soviet Union, even a Socialist government might implement a rapid rearmament program. Moreover, it is not inconceivable that the shocks could come from Taiwan, Korea, or Indonesia rather than from a major power.

If Japan should ever come to the point of a massive or even nuclear, rearmament program, it seems unlikely that the program would develop in a pro-American political context. The ruling Liberal Democratic Party (LDP), which is the only major pro-American party, maintains its electoral edge over its opponents with great difficulty, and it is extremely vulnerable to attack from the left on military and nuclear issues. Thus the LDP is unlikely to be able to implement major rearmament programs. The various anti-American parties, on the other hand, are not vulnerable to attack on these issues, and for this reason could successfully carry out a rearmament program in appropriate external circumstances--just as Richard Nixon could carry out a dramatic rapprochement with China because of his impeccable anti-communist credentials. Here it is important to understand that "pacifism" is a misnomer for much leftist (and other) anti-military rhetoric in Japan. Senior members of the Socialist Party, whose anti-militarist credentials are impeccable, are quick to explain that Japan is not a pacifist country and that their party is not pacifist. Their anti-militarism combines fear of military influence in domestic politics, recognition of the utility of anti-militarism as a club to use on the LDP, anti-Americanism, specific fear of nuclear weapons, fear that armed forces expansion in the present political context would primarily support the right wing in Japanese politics, and a series of arguments about the utility of armaments for Japan. In a different international environment, and with a different ruling party, the rhetoric could change rather dramatically. Thus, only the anti-American parties are likely to be able to implement dramatic rearmament.

In addition, the trigger of a dramatic rearmament program would likely be some severe security shock which either (1) followed dissolution of the Mutual Security Treaty because of Japanese-American friction, or (2) some shock which revealed the Treaty to be inadequate for Japanese defense. In either case, the rearmament would occur in a situation of Japanese disillusionment with the United States. A possible exception to this argument could occur according to the following scenario. A left wing coalition could come to power and, because of inexperience and the absence of the U.S. umbrella, get into severe trouble, precipitating a right wing takeover and vigorous rearmament. In such a situation, one can imagine the right wing government taking a pro-American stance, but one cannot predict such a stance in advance, and one cannot assume that such a government would support broader American interests even if it did not adopt a stated policy of sympathy for the U.S.

Speculation about the likelihood that Japan will eventually build nuclear weapons has raised certain strategic and technological considerations which do not seem to hold up. First, it can be argued that any relatively modest Japanese nuclear-weapon program would simply stimulate overwhelming countervailing efforts and targeting from the PRC and USSR, so that only a massive program makes sense for Japan; such a massive program would presumably meet equally massive political opposition, and therefore be unlikely to materialize. But a nuclear-weapon program might evolve largely from considerations of morale and bureaucratic politics, with little weight given to straightforward strategic considerations. Or Japanese proponents of a modest nuclear program could argue that the ability to totally destroy even a few major PRC or USSR

cities would have great deterrent value, and they could with justice point out that the French and British have apparently not stimulated massive, countervailing USSR efforts. Moreover, nuclear weapons might be useful in impressing Taiwan and Korea with the weight of Japanese claims--a consideration that could have at least some minor weight given the possibilities for conflict and the extraordinary military power of those small countries.

Second, it has been argued that the Japanese nuclear power industry, upon which the putative weapon program would have to rest, faces such severe technical and political difficulties that its growth will be far slower than official projections indicate, and that this undermines the technological base for nuclear-weapon programs. But even a drastically slowed nuclear power industry could support impressive weapon programs by the 1980s. As the early bugs are worked out of the reactor technology, technical inhibitions may vanish rapidly, and if further severe energy shortages occur some of the political opposition may become muted. In addition, new weapon technologies, such as fusion bombs ignited by lasers instead of fission, may overleap some of the difficulties.

Thus the principal inhibitions to Japanese procurement of nuclear weapons remain in the realm of domestic and international politics, not in the realm of technology and fear of reprisal. In gauging the strength of the political inhibitions one must proceed with extreme caution. The current nuclear inhibitions are stronger than many observers have credited--as evidenced for instance by the refusal of Japanese fishermen to let Japan's first nuclear ship, the Mutsu, return to port after it suffered reactor problems on its maiden voyage, even though those problems presented no real threat to the fishermen's interests. On the other hand, the

extent to which such views depend on a context in which the nation feels relatively secure cannot easily be overstated. The Japanese are capable of extraordinary, and extraordinarily rapid, changes of perspective on even such fundamental issues when the environment, or their perception of the environment, changes.

#### The Japanese Response to Tight Energy Supplies

Japan will be deeply involved with world energy and resource problems. Japan is the major power which is most dependent on foreign energy and resource supplies. It must therefore diversify its sources of supply as rapidly as possible, expand existing oil production and exploit new fuels. Because of its vulnerability, Japan may become the leader in developing industrial and social technology for coping with scarce resources. Japan's tankers set the pace for petroleum and transport capability. Its automobile manufacturers have become preeminent in producing auto engines that conserve fuel and meet environmental standards. Japan may lead the way in moving toward different kinds of automobile engines. Japan may lead in cooperative expansion of world energy supplies, as in its investments in North Sea oil (which will be used primarily by other nations). Alternatively, Japan could lead the world toward beggar-thy-neighbor policies of seeking exclusive access to certain sources of oil and other resources. Currently, Japan seeks exclusive access to energy supplies constituting one-third of its total energy needs.

#### Further Trade Liberalization?

In response to American pressures, Japan liberalized its trade and encouraged its citizens to spend and invest abroad. The liberalization is now proceeding more slowly, partly from inertia and partly because

Japanese industry is still relatively undercapitalized and therefore vulnerable to foreign takeover if complete liberalization were realized. Also Japan's market structure must also be modernized before Japanese companies can survive free competition from foreign companies within Japan.

Nevertheless, Japan's trend toward trade liberalization is clear, and in the future Japan will have a greater stake than almost any other major country in free trade, freedom of the seas, and stable monetary arrangements. Japan may become the world's leader in supporting free-trade policies, of which, since World War II, Americans have been the leading advocates. This trend could become even stronger if rising raw material and energy costs return Japan to its traditional status as a balance-of-payments debtor. Balance-of-payments deficits could also lead to an export promotion drive which would stimulate protectionist pressures in the United States and EEC.

#### Priority for Japanese Domestic or International Needs?

A greater priority for Japan's domestic economic needs may be just as important as future international conditions in setting Japan's course. It is likely that under future Prime Ministers, the Japanese economic infrastructure will be greatly modernized and huge expenditures allocated to improving "quality of life," even if the ambitious plans of Prime Minister Tanaka are not realized in the immediate future. Such massive reconstruction of the economy would reorient Japan toward its more profitable internal market. This would attract investments and exports from the United States and other industrialized countries at a time when the U.S. will be emphasizing exports.

The scale and pace of Japan's internal reconstruction, however, will remain sensitive to Japan's success in meeting its international

needs, particularly paying for energy. The reconstruction will be equally sensitive to Japan's domestic political and economic climate.

Prior to the energy crisis, Japan's domestic and international needs appeared to interlock well. The infrastructure, welfare and pollution control programs necessary to alleviate Japan's domestic problems would vastly expand Japan's domestic market and thus reorient the economy away from massive export promotion. The effect of such an economic reorientation, together with trade and investment liberalization, would be to reduce or nullify the large Japanese balance-of-payments surpluses with the United States and Europe, which caused serious political irritations and undermined international monetary stability.

But the effect of the energy crisis is to reverse the balance-of-payments problems. Energy costs and inflation will necessarily raise the price of Japan's exports. Much higher prices may make Japan's exports less competitive with those of the United States, where cheaper energy may be available, while at the same time Japan will spend more on imports. Thus, Japan may have to cope with a balance-of payments deficit, while simultaneously international political irritation and domestic disillusionment with the costs of Japan's current policy may continue.

In this last case, particularly, these competing demands on Japanese policy makers could have weighty consequences: less rapid implementation of needed domestic programs; a hasty and only partially successful drive for new Soviet, East European and West European markets; a reduction in the rate of trade and investment liberalization; a drive to pay for oil imports by increasing exports to the U.S.--which might further damage relations with the U.S.; or a further weakening of popular support for the current Japanese government. But these are short-run possibilities and it is too soon to estimate the medium-term effects.

The Current Preeminence of Economic Issues

In Eastern Asia, as in most of the rest of the world, the overweening issues currently are economic ones. Economic issues are preeminent within each country and they are presently the principal determinants of the extent to which U.S. security interests in the region will be achieved. Outside of Indochina, the fundamental trend of the last ten years has been toward greater security and prosperity and--despite a great deal of academic opinion to the contrary--the improved security has been linked to rising prosperity. But food shortages, energy shortages, high energy prices, monetary instability, inflation, and the threat of worldwide recession or depression, threaten the gains that have been made. These economic problems threaten the material progress, rising technocratic competence, and rising government budgets, that have improved stability and security, and they threaten the positions of key political elites in Japan and elsewhere which have been friendly to the United States and supportive of U.S. security interests. Thus for the time being the number and staffing of military bases in the region, and the skill of diplomats, matter little by comparison with the influence of inflation and recession. Even in relations with China, whose economy is relatively isolated, the keys to achievement of American long-range objectives may prove more numerous in the boxes labeled "economics" than in those with military and political labels. For two to five years American security interests in the Western Pacific will hinge on energy sharing, food sharing, food prices, control of inflation, and avoidance of policies which might dampen domestic inflation at the risk of worldwide depression. To the extent that these economic issues are solved, the U.S. will need fewer bases and have access to more.

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